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Income maintenance programs are a key feature of the American welfare state. The impact of the Reagan administration's social welfare policies are examined in this article, which also speculates about the long-term effects of his successes on the future of income maintenance programs. Specifically, this article provides a brief historical background of income maintenance programs, examines Reagan's ideological and strategic approach to deconstructing the welfare state, evaluates the domestic successes of the Reagan administration, and explores the long-term impact of Reagan's policies on the future of income maintenance programs.

A precise definition of income maintenance—at least within the American context—is elusive. Some policy analysts define income maintenance programs solely as public assistance programs, such as Aid to Families with Dependent Children (AFDC), General Assistance, and Supplemental Security Income (SSI) (Karger and Stoesz, 1990). Others define income maintenance programs more broadly to include public assistance programs and social insurance programs such as Social Security, Unemployment Compensation, and Workers' Compensation (DiNitto and Dye, 1987). For the purposes of this article the more inclusive definition of income maintenance will be used.

This article provides a brief historical background of income maintenance programs and describes the major changes that have occurred in those programs over the last fifty years. It also examines the Reagan agenda for limiting the income maintenance sector, and the major short- and long-term impact on income maintenance programs resulting from Reagan administration initiatives.

The Pre-Reagan Welfare State

Since its origins in the mid 1930s, the American welfare state has been an amalgam of ideologically disparate programs. Unlike European welfare states such as Britain, the American welfare state did not emerge from a coherent social vision. Instead, Franklin D. Roosevelt created a patchwork welfare state in response to the social volatility of the Depression and the need to salvage what remained of capitalism. Ongoing public assistance-based income maintenance programs for the poor—what has been transformed into AFDC and SSI—were peripheral to the primary social insurance focus of the New Deal. Even the tenuous security offered by the fledgling American welfare state was uneven. For example, unemployment insurance was not generous in its benefits, and Social Security originally excluded certain groups of workers, notably domestics and agricultural workers. Despite these flaws, public assistance-based income maintenance programs grew because they addressed important social needs.

The expectation that welfare programs would lead to greater equality, social justice, and the redistribution of income and resources occurred in its most focused form during the Great Society and War on Poverty programs of the 1960s, a period that came to represent the halcyon days of liberal social welfare policy. Important social welfare policies of the mid-1960s included the Food Stamp Act and the introduction of Medicare and Medicaid. At the same time, aggressive social plans were designed that promised a poverty-free America and a nonstigmatized, community based, and easily accessible system of social welfare. To realize these objectives, the Johnson administration developed myriad programs designed to help low-income children, families, and communities. Ingrained within these programs was a belief that the welfare state could ensure equality of opportunity and a redistribution of social, economic and political resources. In one of the rare instances in recent American history where rhetoric was backed up by fiscal resources, the number of federal domestic aid programs rose from 200 to 1,100 from the early 1960s to 1975 (Gilbert, 1986).

America's brief flirtation with bold social welfare initiatives ended by the early 1970s, and Liberals had few successes to

point out when pressed to justify the massive expenditures of the 1960s. While AFDC rolls tripled (from 3 million to 9.6) from 1960 to 1970, social problems, such as drug addiction, crime, teenage pregnancy, child abuse, and mental illness continued to grow. By 1968 the Great Society programs had become unpopular with the American public and stinging critiques of them began to appear regularly in newspapers and magazines.

The American welfare state entered a paradoxical period with the election of Richard Nixon in 1968. While the bold social experiments of the War on Poverty were terminated or reassigned to mainstream federal bureaucracies, the more established income maintenance programs—Social Security and AFDC—grew dramatically.[1] In addition, when Nixon took office again in 1972, he attempted to streamline income maintenance programs by proposing a Family Assistance Plan (FAP), which called for a guaranteed annual income to replace AFDC, Old Age Assistance (OAA), Aid to the Blind (AB), and Aid to the Permanently and Totally Disabled (APTD). While the FAP was rejected by Congress, the OAA, AB, and APTD programs were federalized under a new program called Supplemental Security Income (SSI). Although the Nixon administration's ambivalence toward social welfare was followed by two low key presidencies, the relative lull in social welfare thinking from 1975 to 1979 was abruptly shattered by the explosion of the Reagan administration.

Vision and Action: The Reagan Welfare State

Unlike the more pragmatic Nixon, Reagan viewed income maintenance through a highly ideological lens. Charles Atherton (1989) outlines five propositions that sum up the New Right's—and by implication Reagan's—socio-political philosophy of income maintenance programs.

First, conservative analysts claim that the welfare state is paternalistic and antilibertarian. They argue that any state with the power to shift resources from one group to another represents a form of economic tyranny. As such, they focus on the abridgement of the rights of those coerced into subsidizing the poor. Second, Conservatives argue that the welfare state is both ineffectual and counterproductive. Third, Conservatives

contend that the welfare state is too expensive, its results are spurious, and they doubt whether the gains made by welfare programs justify spending 17% of the U.S. Gross National Product (GNP). Fourth, Conservatives believe that the welfare state is based on faulty principles of social engineering that eventually lead to centralized planning and a managed economy. Lastly, the welfare state is viewed by many conservatives as having lost sight of basic American values (Gilder, 1981). According to these critics, the welfare state does not reinforce the work ethic; the goal of self-sufficiency, self-support, and self-initiative; the importance of intact families (Mead, 1985); the fiscal responsibility of the parent to the child; and the notion of reciprocity—the idea that recipients have an obligation to behave in a socially acceptable manner in return for receiving assistance.

Reagan's views on income maintenance were informed by the simple philosophy that the way to wealth and national income growth—and out of poverty for the poor—was through a vibrant, nonregulated marketplace and personal initiative. Shortly after assuming office, Reagan signed the Omnibus Budget Reconciliation Act (OBRA) of 1981. Among other things, OBRA substantially cut public assistance benefits and punished recipient family heads who were trying to improve their economic lot. After passage of the OBRA legislation, AFDC recipients found their child care expenses capped at $160 per month per child, their deduction for work expenses limited to $75 per month, and their earned income disregard (the first $30 per month and one-third of income thereafter) eliminated after four months. Combined with other measures, OBRA had a profound impact on AFDC rolls, resulting in 408,000 families losing eligibility and another 299,000 having their benefits reduced. In effect, 5% of the total AFDC caseload became ineligible due to OBRA, and about 35% of those who were working were terminated (Moffitt and Wold, 1987, p. 248). Monthly income loss resulting from OBRA ranged from $229 in Dallas to $115 in Boston. In addition, former AFDC beneficiaries in these cities also lost Medicaid coverage. In Dallas, 59% of terminated families could not secure alternative health insurance; in Boston, 27% (Moffitt and Wold, 1988).

All told, the budget cuts of 1981 resulted in a 11.7% reduction in AFDC funding, stiffer eligibility requirements, and a 19% reduction in Food Stamps (other food programs were reduced by 13%). In addition, the duration of unemployment insurance was reduced by 13 weeks (Day, 1989). Because of budget cuts and other fiscal policies, the poverty rate in 1984 climbed to 15.3%, higher than any year since the early 1960s (Karger and Stoesz, 1990).

For Conservatives, simple reductions in welfare benefits failed to get at the heart of the problem. What was needed was preventive medicine: the transformation of the very tax structure that generated the revenues necessary for welfare benefits. Conservatives justified their position by arguing that if taxes were less progressive, the rich would benefit; however, if the poor were also provided rebates they would benefit as well. By exempting the poor from a predatory and regressive tax structure, Conservatives could cut the flow of vital revenues for welfare programs and improve the lot of those in economic difficulty. Thus, tax policy became social welfare policy, but in a manner antithetical to the liberal understanding of both tax and welfare policy (Stoesz and Karger, 1991).

Tax policy was repeatedly substituted for welfare policy during the Reagan administration.[3] Claiming that the burden of inflation disproportionately affected those on limited incomes, Reagan successfully argued for a tax cut soon after taking office. The concept of using tax expenditures—indirect payments through tax exemptions, credits, or rebates—as a proxy for direct welfare payments was a relatively recent possibility. In 1975 the Earned Income Tax Credit (EITC) was instituted whereby low-income tax-payers were given a rebate. The EITC proved to be just the program that conservatives were looking for as a substitute for direct income maintenance payments.

Despite the increases in EITC, the tax rebates failed to compensate for the deep cuts in welfare programs made under Reagan. According to Kevin Phillips (1990), "Low-income families, especially the working poor, lost appreciably more by cuts in government services than they gained in tax reduction" (p. 87). Moreover, because the wealthy continued to benefit from less progressive taxation, the income disparity between rich and

poor widened. Between 1980 and 1990, the federal tax burden for the richest quintile of taxpayers decreased 5.5%, while taxes of the poorest fifth increased 16.1%. This loss of income occurred despite the increased level of EITC payments (Greenstein and Barancik, 1990).

Although public assistance programs were an important target for Conservatives, the lion's share of federal expenditures were in the social insurances. By the middle 1970s Social Security began to show signs of being in trouble. Between 1975 and 1981, the Old Age and Survivors Fund saw a net decrease in funds with a deficit in the reserve of between $790 million and $4.9 billion a year, an amount that threatened to deplete the reserve by 1983. Moreover, the prospects for Social Security seemed bleak. While the ratio of workers supporting beneficiaries was one to three, by the end of the century the ratio was expected to be two to one. The long term costs of the program would have thus exceeded its projected revenues.

Through 1981 OBRA, the Reagan administration was able to exploit the Social Security crisis by whittling away at benefits, including the elimination of benefits for postsecondary students, and restrictions on payment of the death benefit. These reductions were expected to save the program $3.6 billion by 1983, an amount insufficient to make up for future shortfalls. In order to insure the future integrity of the Social Security system, the Reagan administration quickly empaneled a bipartisan commission. Facing short and long-term problems, Congress moved quickly and passed P.L. 98-21—the Social Security Amendments of 1983. This legislation included various changes, such as a delay in Cost-of-Living-Adjustments (COLA) and a stabilizer placed on future COLAs. In addition, Social Security benefits became taxable if taxable income plus Social Security benefits exceed $25,000 for an individual or $32,000 for a couple. And, by 2027 the retirement age was to be increased to 67 for those wanting to collect full benefits. Although People could still retire by age 62, they would receive only 70% of their benefits, down from the current 80%. Lastly, coverage was extended: new federal employees were covered for the first time, as well as members of Congress, the president and vice-president, federal judges, and employees of, nonprofit corporations. For 1990,

these changes added over $308 billion to the Old Age Survivors Insurance and Disability Insurance Trust Funds (Stoesz and Karger, 1991).

Although Liberals viewed the 1983 Social Security reforms as a success, the major Conservative victories were less apparent. By trimming benefits through OBRA, Conservatives had reversed decades of steady expansion of the Social Security program; by increasing the regressive payroll tax through the 1983 amendments they placed the solvency of the program squarely on the shoulders of middle-income workers. Thus, while total annual federal revenue receipts from income tax fell from 47% to under 45%, revenues from Social Security increased from 31 to 36%. Senator George Mitchell pegged the resulting income redistribution from middle-income workers to the wealthy at $80 billion (quoted in Phillips, 1990, p. 80).

Despite the conservative bent of the 1983 Social Security Amendments, the sharp erosion of income experienced by recipients of public assistance programs was not replicated in the social insurances. This was not for lack of creativity. Conservatives fashioned privatized approaches to almost every governmental function, including the substitution of Individual Retirement Accounts for Social Security. And, despite his campaign pledge, Reagan took on the social insurance programs. Through more restrictive determinations for disability under Social Security, the Reagan administration sharply reduced the number of beneficiaries for disability payments. From 1981 to 1984, the number of initial terminations for disability insurance were four times that for the period of 1977–1980. Between 1978 and 1983, the number of disability beneficiaries declined by more than one million, a reduction of 21.7%. Although over half of those terminated were to have their benefits restored by 1987, the net result was the termination of 37% of cases (Committee on Ways and Means, 1990).

One of the areas hardest hit by the Reagan administration was Unemployment Insurance (UI). In 1975, over 75% of all unemployed workers were covered by UI; by 1980 that number had dropped to 50%; and by 1988 it has dropped to a record low of 31.5% (Karger and Stoesz, 1990). Because rates of unemployment insurance coverage differ on a state-by-state basis,

these aggregate figures tell only part of the story. In states such as Texas, Virginia, South Dakota, Louisiana, Arizona, Indiana, Georgia and Florida, the percentage of workers receiving unemployment benefits in 1988 was at or below 20%.

While the unemployment rate came down from a high of 9.7% in 1982 to 5.5% in 1988, the status of the unemployed did not return to the 1979 level. Specifically, the typical person who became unemployed in 1979 remained out of work for a shorter period of time (10.8 weeks) than in 1988 (13.5 weeks). Moreover, in 1979 there were 535,000 people who were unemployed for six months or more compared to 809,000 people in 1988 (Shapiro and Nichols, 1989). At the same time that spells of unemployment increased, federal and state changes in the UI system made it more difficult for unemployed workers to qualify for benefits. For example, in 1988 it was more difficult for states to provide extended coverage for an additional 13 weeks to workers who had exhausted their 26 weeks of standard unemployment insurance benefits. In 1981, the threshold in which a state can pay these extended benefits was substantially increased at the behest of the Reagan administration (Shapiro and Nichols, 1989). In short, federal policies enacted during the Reagan administration formed a disincentive for states to extend or liberalize their unemployment insurance coverage.

Income Maintenance Programs and the Reagan Legacy

The Reagan administration left an important ideological legacy for the American welfare state, one that was cemented through the creation of a massive budget deficit. The realization of Reagan's ideological promises is best illustrated by the adoption of the Family Support Act of 1988, the crowning domestic achievement of his second term.

Although Conservatives were concerned about Social Security, UI, and SSI, their real attention had always been focused on what they saw as the most vulnerable income maintenance program—AFDC. Until the Reagan administration, welfare reform had a liberal connotation and reform proposals usually called for expanding the scope, benefits, and eligibility of welfare programs. However, by the 1980s conservative scholars began to develop plausible proposals for welfare reform, including

serious proposals in the areas of workfare, community development, and child welfare (Rabushka, 1980; Anderson, 1980; Gilder, 1981; Meyer, 1981; Murray, 1984; Butler and Kondratas, 1987; Novak, 1987; Lind and Marshner, 1987). Within a short period, the liberal hegemony in social welfare was confronted by a group of scholars who held a vastly different view of the limits, scope and responsibilities of the American welfare state. Out of this melange of conflicting interests emerged the Family Support Act of 1988.

The Family Support Act of 1988 was a compromise bill that emerged from a Congress besieged by a huge federal budget deficit. Although inherently conservative, the Family Support Act appeared moderate in light of the proposals coming from the Reagan White House. For example, an earlier proposal made by the Reagan administration, the Low-Income Opportunity Act, would have effectively eliminated a poor mother's entitlement to support from federal welfare programs. This proposal would have given states wide latitude in program design, eligibility guidelines, benefit levels, and the allocation of program resources.

Despite its conservative features, Representative Thomas Downey, Chair of the House Subcommittee on Public Assistance, hailed the Family Support Act as the first "significant change in our welfare system in 53 years" (Eaton, 1988, p. 15). Under this bill, $3.34 billion was to be allocated over the first five years for states to establish education and job-seeking programs for AFDC recipients. During 1990 and 1991 states would have to enroll at least 7% of AFDC parents in "workfare," and by 1995, the mandatory enrollment would rise to 20%. Although the AFDC-Unemployed Parent program (covering two-parent families) was made mandatory for all states, beginning in 1997 one parent will be required to work at least 16 hours a week in an unpaid job in exchange for benefits (Rich, 1988). Among the more progressive provisions of the bill were the extension of eligibility for day-care grants and Medicaid for one year after leaving AFDC. This bill also mandated the automatic deduction of child support from an absent parent's paycheck. Representative Dan Rostenkowski, Chair of the House Ways and Means Committee (which oversees most welfare legislation), estimated

impede self-sufficiency if beneficiaries were forced to do make-work instead of seeking real work in the labor market. Garnishing wages of the noncustodial parent was also unlikely to increase the economic independence of many female-headed households or of low-paid male workers. In cases of marginal incomes, garnishing wages of low-paid male workers can create a disincentive to work.

The Family Support Act also did not alleviate the long-standing erosion of cash grants to poor families. AFDC benefits currently remain below the poverty level for all states, except Alaska (Committee on Ways and Means, 1988). From 1970 to 1988, the median state's AFDC benefit dropped 35% (in constant dollars) as a result of inflation. In other words, if AFDC benefits had kept up with inflation, beneficiaries in 1988 would have received an additional $5.88 billion. The welfare reform bill would redistribute to the poor only 57% of this lost income ($3. 34 billion) over a five year span. Moreover, even this inadequate reallocation would be diluted by channeling it through a compulsory workfare program (Karger and Stoesz, 1990).

Lastly, the Family Support Act bill failed to tackle one of the most serious problems in AFDC—the lack of a national AFDC benefit standard. Specifically, this bill did not rectify a system which allows states such as Alabama, Kentucky, Louisiana, Mississippi, Tennessee, and Texas to award a family of three an AFDC grant of less than $200 per month (Karger and Stoesz, 1990). (In comparison, Alaska, California, Vermont, and Connecticut pay the same family over $600 per month.) Despite its obvious shortcomings, three fundamental values of the Reagan administration were reflected in the Family Support Act of 1988: reciprocity, productivity, and familial responsibility.

Reciprocity

Conservatives insist that welfare programs contribute to dependency and dysfunctional behaviors, especially when benefits are not linked to an expected standard of conduct. Charles Murray (1984) maintains that the very system designed to help the poor has created dependency by penalizing the virtuous and rewarding the dysfunctional. Although reciprocity is promoted

as a way to encourage socially desirable behavior in welfare recipients, it is also becoming a necessary component to aid the public credibility of welfare programs.

Productivity

In order to survive in a highly competitive global economy, the U.S. is forced to consider new ways to more effectively utilize its labor force. Given the new economic realities, the ascendence of conservative values, and the severe budgetary restraints, the federal government is likely to force social programs to become more congruent with economic productivity. Within this context, relief will be defined from an emphasis on welfare to one of work. Allying welfare with productivity will also draw social programs closer to the American economic system, a strategy that may be necessary to justify future social welfare expenditures.

Familial Responsibility

Another ideological premise of the Family Support Act is the belief that government should abandon its role as the "rescuer of first resort." Retreating to traditional values, this philosophy dictates that biological parents have the ultimate responsibility to support their offspring (thus justifying the stringent enforcement of child support laws). The values institutionalized in the Family Support Act are likely to guide income maintenance policies for at least the present decade.

To ensure that his domestic agenda would not be temporary, Reagan presided over the largest budget deficit in the history of the United States. The scope of the federal budget deficit is difficult to grasp. While the 1989 Gross National Product (GNP) of the United States was $5 trillion, the budget deficit was rapidly approaching $3 trillion. In other words, the federal budget deficit equalled three-fifths of the entire GNP in 1989. In 1988 the world traded a total of $2.7 trillion worth of goods, less than the $2.83 trillion U.S. federal budget deficit in the third quarter of 1989. Broken down, the federal debt exceeds over $13,000 for every man, woman, and child in the United States. By creating an enormous debt (from about $50 billion a year in the Carter term to between $145 to $200 billion

a year in the 1980s), the Reagan economic legacy paralyzed the growth of fiscal-based income maintenance programs until the next century.

While the Reagan administration could rightfully claim major successes in reshaping American social welfare policy during the 1980s, its most important achievement was in creating a far-reaching conservative ambience. This legacy is most visible in the budget deficit reduction package of 1990.

The framework for the 1990 budget package was created by the tax-cuts of the first Reagan term, which contributed to an unprecedented budget deficit. Throughout the late 1980s, Congress and the Reagan, then Bush administrations, postponed the day when the budget would have to be reconciled with the Gramm-Rudman-Hollings Deficit Reduction Act. However, facing a huge revenue shortfall in 1990, the Congress and the president were forced to develop a more viable budget package. Reflecting the difficult consequences of any serious budget compromise, the initial deal was cut beyond the view of the public and press at Andrews Air Force Base. Failing to get past outraged liberal Democrats and conservative Republicans (who had signed a campaign pledge not to raise taxes), another round of bargaining ensued.

On October 27, 1990, the House and Senate approved sweeping budgetary legislation that made changes in numerous entitlement programs, raised taxes, placed ceilings on defense and non-entitlement spending programs, revised the Gramm-Rudman-Hollings deficit targets, and made important changes in Congressional budget procedures. The next day, Congress approved the final thirteen appropriations bills for fiscal year 1990 that set specific funding levels for hundreds of programs. All told, these measures were designed to reduce the deficit by $42.6 billion in fiscal year 1991 and $496 billion from 1991 to 1996. After a decade of punishing program cuts, Liberals greeted the budget compromise with relief, since it increased domestic expenditures over a five year period by $22 billion (Stoesz and Karger, 1991).

The deficit reduction program consisted of five elements: (a) reductions in entitlement programs, (b) reductions in defense spending, (c) increases in user fees for government services,

(d) tax increases, and (e) reduced interest payments on the national debt. Taken together, this budget package represented a mixed bag of reforms. On the positive side, it contained progressive tax increases (the tax burden on the wealthy was to go up more than for the middle class, and the tax burden on households with incomes of less than $20,000 would actually decline), the out-of-pockets costs borne by Medicaid beneficiaries was reduced by two-thirds (poor Medicare beneficiaries were shielded from the moderately higher Medicare rates), federal programs targeted at poor or unemployed people were protected, Medicaid coverage was extended to poor children up to age 18, low-income families with children were to receive new or expanded tax credits under the EITC program (they are slated to receive over $18 billion over the next five years), two new grant programs were established to provide day care services for low and moderate income families, and Medicaid was expanded to include the functionally impaired elderly living at home. In addition, the budget package contained increases for Head Start, low income housing programs, and the WIC program (Leonard and Greenstein, 1990). Significantly, Social Security was safely "Off-budget," guarded by "firewall" procedures in Congress (House Budget Committee, 1990). Congruent with conservative values, the main beneficiaries of the budget package were not public assistance recipients, but poor working families with children.

On the negative side, this package prohibited the transfer of funds between defense and domestic appropriations for three years, thus precluding any peace dividends. In effect, prohibiting the transfer of funds between defense and domestic budget lines meant that social programs must compete with each another for a fixed amount of funds, thereby making it more difficult to fund new welfare initiatives. In addition, changes in budgetary procedures shifted power from a relatively liberal Congress to the more conservative Office of Management and Budget (OMB). For example, any breach of spending ceilings for defense or domestic nonentitlement programs will trigger an across-the-board cut in that particular category of programs. Hence, no entitlement program could be increased unless such measures are offset by other entitlement programs or tax

changes. The final arbiter of whether spending ceilings have been violated or whether new tax thresholds have been reached is the OMB (Leonard and Greenstein, 1990).

Although the tax changes in the deficit compromise were progressive, they did not profoundly affect the increasingly skewed income distribution in the United States. A House Budget Committee noted that the total tax increases under 1990 OBRA, 2.2% over five years, paled in contrast to the 1981 Reagan tax cut of 16% (House Budget Committee, 1990). Moreover, extension of Medicaid to cover every poor child is phased in over a twelve year period, meaning that all poor children will not be assured of health care until October 2002 (Leonard and Greenstein, 1990).

The successes of the Reagan administration seems likely to influence income maintenance policy throughout the present decade. Income maintenance ideologies that stress reciprocity, productivity, and familial responsibility represent a return to traditional values of self-reliance, independence, individual responsibility, and the limited role of government. For Liberals who advocate expanding social welfare programs, these values represent a deterioration of the traditional liberal consensus that guided American social welfare policy since World War II.

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Notes

1. Although Nixon ended many of the experimental programs of the Great Society, he did not curb welfare expenditures, which grew at a healthy rate during his administration. See Diane M. DiNitto and Thomas R. Dye, *Social welfare: Politics and public policy* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1987).
2. Reagan's emphasis on using tax payments as a substitute for direct welfare payments was continued through the Tax Reform Act of 1986. As a result of a compromise with Liberals who were concerned about the continued

erosion of the income of the working poor, the Tax Reform Act of 1986 effectively removed roughly 6 million low-income families from the tax rolls. Instead of paying taxes, these families received cash payments from the Treasury through the EITC. On the other hand, Liberals also agreed to a more regressive tax structure in which the previous fourteen income gradations were collapsed into just two.